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## SPECIAL ANALYSIS

### POLAND: Bleak Financial Outlook

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Poland's hard currency debt remains a major obstacle to economic recovery. Scarce foreign exchange has to be spent on debt service rather than on imports. New credits are not available to finance a deficit, and payments arrears are mounting by more than \$800 million monthly. The Poles have not begun payments due this year, and rescheduling negotiations on obligations for 1982 are off to a slow start. Poland almost certainly will not be able to obtain sufficiently generous rescheduling terms to close its financial gap this year. [REDACTED]

Poland owes Western creditors \$9.8 billion in debt service due in 1982 under original loan contracts, and \$1.4 billion in debts carried over from last year and in payments due under debt relief agreements for 1981. Against this total of \$11.2 billion, the regime projects for this year at best a \$700 million trade surplus and a positive balance of \$300 million on current account items other than trade and interest, leaving a financing requirement of \$10 billion. [REDACTED]

#### Little Progress in Rescheduling

Although Western governments are requiring certain political steps as preconditions to talking about additional rescheduling, some are quietly anxious to open negotiations in order to stake claims on whatever debt service payments are made.

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Negotiation of the terms for any agreement in 1982 will be difficult. The agreement in 1981 with the commercial banks rescheduled 95 percent of principal payments but gave no relief from interest payments. [REDACTED]

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The Poles' request this year for total debt relief--presumably excluding only obligations under rescheduling agreements--has made renegotiating even more difficult.

In 1981, credit guarantees extended by Western governments allowed Poland to finance a trade deficit and to pay a large part of the debt service that was not rescheduled. Western governments, however, are unwilling to extend new money this year and banks are unwilling to increase their exposure.

Bankers are counting heavily on Warsaw's projected \$700 million trade surplus to pay interest due this year. Although such a surplus is possible, the bankers are likely to be disappointed. Interest charges this year are estimated at \$1.35 billion on unguaranteed debt.

Moreover, the surplus earned early this year was earmarked to pay overdue interest in 1981. The Poles may choose to run a smaller trade surplus. The Polish press in April announced a 20-percent increase in planned imports in the second quarter--implying balanced trade.

#### Rescheduling Possibilities

The rescheduling outlook is so uncertain that a wide range of outcomes is possible. Warsaw could barely close its financial gap this year if it earns a \$1 billion surplus on its current account, obtains credits of \$1 billion, and concludes rescheduling agreements with all creditors covering all of the debt service for 1982. More likely possibilities based on incomplete rescheduling leave Poland with a financial gap of from \$1.8 billion to as much as \$9 billion.

#### Default Remains Possible

A few banks might benefit from a Polish default by seizing Warsaw's meager assets in the West, but a formal default would require large loan writeoffs and end the

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trickle of payments coming from Poland. Although the bank group has been able to keep in line the smaller creditors who favor default, the bleak financial outlook could increase pressure for a formal declaration in several ways.

- Disagreement and disorganization among banks increase the likelihood that creditors will try to cut separate deals with Warsaw, leading excluded banks to retaliate.
- Mounting unpaid debts, especially on interest payments, will result in pressure from bank regulators to order writeoffs for loans to Poland.
- The unsettled situation in Poland could yet lead to events that would induce government creditors to force a formal default.